HOUSING MARKET OUTLOOK
Charlottetown CA

CANADA MORTGAGE AND HOUSING CORPORATION

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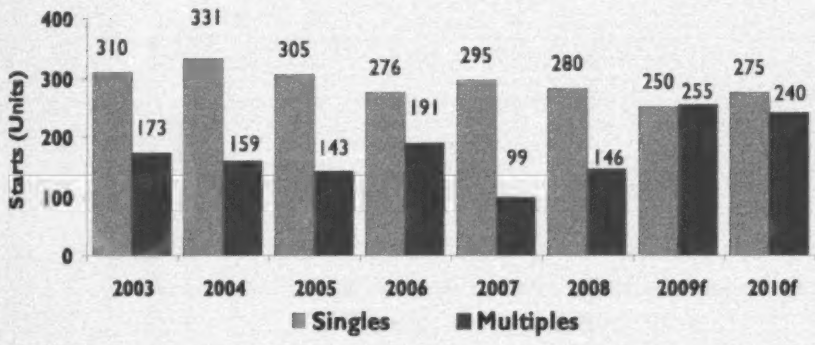
In-Migration to Support Housing Market

In-migration and low mortgage rates will lend strength to the housing market this year and next. Residential construction is expected to rebound in 2010 following declines in 2009. Economic recovery is expected to take hold in 2010 and result in a moderate rebound in growth following a contraction in the provincial economy in 2009. Overall, the provincial economy is faring better than many other areas of the country. This is due in part to the province's efforts at diversifying the economy away from the traditional industries of agriculture and tourism. One of the key growth areas for the local economy has been in the technology sector, particularly in aerospace, which

Figure 1

Construction to Moderate Over the Forecast Period



Source: CMHC

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recorded increases in both sales and employment in the first part of 2009. This is helping to offset the declines seen in some of the traditional sectors so far this year. Through the first half of 2009, the number of international tourists visiting PEI has dropped and demand for shellfish continues to be weak. The one bright spot in the agricultural sector has been potato products, which have been strong, based on export values. The local economy is also getting a boost from various government stimulus programs.

Employment in the Charlottetown area is forecast to post a slight decline this year before posting a moderate increase in 2010. During the first three quarters of 2009, the decrease in employment in Charlottetown was dispersed among all industries except the public service sector, which posted a small increase. Despite the modest declines in employment in 2009, the capital region remains attractive for job seekers compared to other parts of the province. This fact has lead to the continued trend of urbanization, as Islanders continue to move to the capital region from more rural parts of the province.

Positive net-migration is one of the key factors that has contributed to the strong housing market over the past seven years. As of July 2009, the population of Prince Edward Island was estimated at 140,985; an increase of 1,534 persons or 1.1 per cent from 2008. While this increase in population was the result of both a natural increase and positive net migration, the vast majority was the result of the latter. From July 2008 to July 2009, 1,793 international immigrants chose the Island as their new home, which is the highest annual level since recording began in 1971. The main reason for this substantial increase in international migration was the increased effort that the province has allocated to this initiative. The results seen in 2007 and 2008 are expected to be the start of a new upward trend in international migration with preliminary data for 2009 indicating that the year could end up showing an even larger inflow of people. The local housing market is benefitting from this initiative as many of these households are relocating to the capital region, and as such require housing within all tenure types.

While the aforementioned data on immigration is positive, it is for the province as a whole. It is important to note that the capital region consistently outperforms the province. For the last census period ending in 2006, the Charlottetown CA, which encompasses the entire urban area around the city, recorded a population growth of 1,391 people or 2.4 per cent. While there was some natural population growth during this period, the majority of the increase was due to in-migration. For the Charlottetown area it had been typical that about 70 per cent of the people moving to the capital region came from elsewhere in the province, while the remainder were from other regions of the country. This ratio had remained fairly constant since the early 1990's, but since 2006 it has started to change. The reason for this is twofold, with both the movement of people to the west and the recent influx in international immigrants. As earlier referenced, the influx of international immigration is expected to end up being even stronger in 2009 than 2008, due to the popularity of the province's programs with new immigrants. This will especially benefit the capital region as the majority of the people are settling in the area. This trend should continue to bolster the local housing market over the forecast period, as the population continues to grow.

As a result of the aforementioned market forces, the Charlottetown housing market is expected to exceed the level set in 2008. Although single starts in Charlottetown recorded a decline so far in 2009, multiple starts at the end of the third quarter are on track to have the strongest year

Figure 2

Source: PEI Real Estate Board, CMHC Forecast

since 1988. Single starts are expected to decline 25 per cent in 2009, when compared to 2008. This decline was expected, as many potential homeowners are taking a wait and see approach, before making any large purchases. In addition, single home construction in Charlottetown posted seven years of impressive growth that mirrored the national trend. As such, the decline in 2009 is seen as the market returning to a more sustainable level. In contrast to the decline in singles, multiple starts will end the year close to setting a new record high. The strength in multiple starts is the result of several factors. The increase in multiple unit starts also created a situation where there was a temporary oversupply of rental units that was not fully absorbed until the end of 2007. However, one area where new construction has continued to remain strong is multiple units intended for homeownership. A key reason for the increased activity in this part of the market is the relatively lower cost of semi-detached and row units compared to single-detached homes. Despite the forecasted increase in semi-detached units over the next two years, it is expected that the overall housing market will remain strong during the forecast period.

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. The Bank has committed to keeping this rate at 0.25 per cent through the middle of 2010 unless inflationary pressures warrant an increase.

Mortgage rates have fallen over the course of 2009, but are now expected to remain relatively stable for the rest of the year. Posted mortgage rates will gradually increase through 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate will be in the 3.50-4.25 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.50-6.00 per cent range.

Vacancy Rate to Decline in 2010

The vacancy rate should post a moderate decline in 2009 due to a steady demand for rental accommodations. This will result in the vacancy rate inching down to 2.0 per cent in October of this year from 2.3 per cent during the same period last year. In October 2010, it is expected that the vacancy rate will decline once again to 1.8 per cent, due to continued demand for rental accommodations from new Islanders.

In terms of average rents, expect a larger than average increase in 2009 due to the five per cent allowable rent increase for heated units, that was approved by the Island Regulatory and Appeals Commission in late 2008. Rent increases will be more moderate in 2010 as the allowable rent increase will decrease to two per cent. Together these will result in average two-bedroom rents of $715 and $735 in 2009 and 2010, respectively.

MLS® Sales to Rebound in 2010

The number of residential MLS® sales in the Charlottetown area is expected to decline moderately in 2009, before rebounding in 2010. Since 2000, the number of resale transactions in the Charlottetown area has only dropped below 500 sales once, and this is not expected to occur in either 2009 or 2010. While the level of sales is expected to decline from last year's level it is important to note that 2008 recorded one of the highest levels of sales on record for the capital region. Despite the aforementioned variables posing challenges for the local market, there are still aspects that will provide demand for existing properties. Employment growth is expected to resume in 2010, interest rates should remain low and the rising cost of new homes will help provide support for MLS® as homebuyers opt for existing homes.

Average price growth is expected to slow in 2009 after increasing almost $30,000 in the last two years. This appreciation in local real estate was partially the result of increased activity in the Stratford area where the homes tend to be newer and as a result more expensive. There was also increased demand for properties with water frontage or water views, which tend to command the highest prices in the province. Expect the average MLS® sales price to reach $187,000 by the end of 2010.

New Home Construction to Remain Strong in 2010

New home construction in the Charlottetown CA will rise in 2009, due to multiple construction. Strong apartment and row starts in the first three quarters of 2009 have helped push total starts above the 2008 levels, and this trend is expected to continue into 2010. Semi-detached units intended for homeownership will remain relatively strong over the next two years. The demand for semi units stems from the fact that they remain popular with first-time buyers and this trend is expected to continue over the forecast period. As first-time buyers show a clear preference for new homes compared to existing

homes, the semi-detached market will help satisfy this demand at a lower cost than the new single-detached market.

Single starts are expected to slow over the forecast period. This decline can be partially attributed to rising new home prices which have caused some potential buyers to opt for the resale market. The influx of people moving to the Island however should partially offset this and result in the construction of 250 new units in 2009 and increase to 275 units in 2010.

Rental starts in Charlottetown had been on the decline every year except one since reaching a 15 year high in 2002 with 143 units. This trend has reversed in 2009, as developers are taking advantage of low vacancy rates and low interest rates to build new projects. As such, rental starts are expected to remain above the ten-year average over the forecast period.

Forecast Summary Charlottetown CA Fall 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	634	650	595	550	-7.6	575	4.5
MLS® New Listings	783	817	975	940	-3.6	900	-4.3
MLS® Average Price ($)	153,549	166,244	175,231	183,000	4.4	186,000	1.6
New Home Market							
Starts:							
Single-Detached	276	295	280	250	-10.7	275	10.0
Multiples	191	99	146	255	74.7	240	-5.9
Starts - Total	467	394	426	505	18.5	515	2.0
Average Price ($):							
Single-Detached	186,774	192,477	207,361	213,000	2.7	217,000	1.9
Median Price ($):							
Single-Detached	175,000	180,000	200,000	206,000	3.0	209,000	1.5
New Housing Price Index (% chg.)	2.2	1.3	1.4	3.0	-	3.0	-
Rental Market							
October Vacancy Rate (%)	4.8	4.3	2.3	2.0	-0.3	2.2	0.2
Two-bedroom Average Rent (October) ($)	638	659	672	715	-	735	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.03	-	3.83	-
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.55	-	5.75	-
Annual Employment Level (,000)	32,175	32,450	32,925	32,500	-1.3	32,825	1.00
Employment Growth (%)	1.8	0.9	1.5	1.0	-	1.0	-
Unemployment Rate (%)	7.6	6.6	7.6	7.4	-	7.6	-
Net Migration (P.E.I.)	-111	384	1,203	1,525	26.8	825	-45.9

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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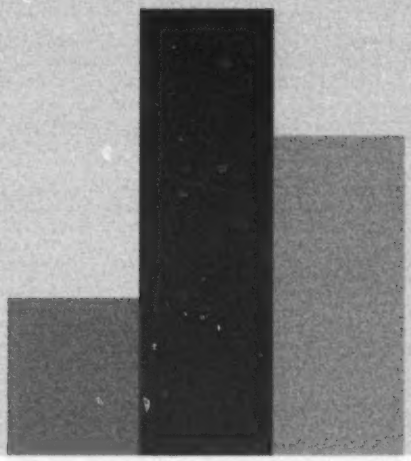

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